

- The value of BC exports fell 3.0% in May
- BC manufacturing shipments climbed 0.9% in May
- At 15%, BC had the lowest proportion of smokers in the country in 2005

Smoking

- In 2005, approximately 18% of Canadian teens aged 15 to 19 reported smoking regularly or occasionally, relatively the same proportion as in 2004. About half of teen smokers (48%) said they purchased their cigarettes from retailers, while the other half (52%) reported acquiring tobacco products from friends or relatives. The Canadian Tobacco Use Monitoring Survey (CTUMS) reports that trends in smoking rates for both men (29%) and women (23%) aged 20 to 24, the age group with the highest smoking rates, continued to decline in 2005, reaching the lowest rates ever recorded by CTUMS for this age group. BC recorded the lowest rate in the country of smokers aged 15 and over (15%) for the second year in a row.

Data Source: Statistics Canada

The Economy

- The value of BC origin exports slipped 3.0% in May (seasonally adjusted) due primarily to declines in shipments of energy products (-13.4%). Exports of machinery, equipment & automobiles (-7.2%) were also down, while forestry products remained relatively flat (+0.2%). Agriculture & fish (+4.3%) and industrial & consumer (+3.7%) products were the only major commodity groups to show notable increases in export value.

Exports to the United States dropped 4.3% as shipments of every major commodity except machinery, equipment & automobiles (+1.3%) fell. Energy shipments south of the border showed continued volatility, dropping 18.0% following a 16.7% increase in April. Agriculture & fish products (-0.4%), forestry products (-1.1%) and industrial & consumer goods (-1.4%) were all lower in May. International exports to countries other than the US were also down (-0.6%), reflecting significant de-

clines in shipments of machinery, equipment & automobiles (-31.3%) and energy (-6.6%).

At the national level, goods exports in May inched down 0.2%, following a 2.1% decrease in April. Forestry (-1.9%), agriculture & fishing (-4.0%) and energy (-4.6%) products were among the commodities pulling exports down. A solid increase in shipments of industrial goods & materials (+4.3%) was not quite enough to offset the declines. Canadian exports to the US (-2.0%) and Japan (-3.7%) were down in May, while commodities sent to the European Union were up considerably (+17.3%).

Data Sources: BC STATS & Statistics Canada

- Shipments of goods produced by British Columbia manufacturers bounced back 0.9% (seasonally adjusted) in May after slumping 2.3% a month earlier. A 4.0% rise in shipments of non-durable goods spurred the increase as manufacturers of durable goods saw a 1.1% drop in shipments. Paper manufacturers were the main contributors to the growth in non-durables with a 14.8% jump in shipments, recovering from an identical 14.8% drop a month earlier. There were some bright spots in durables as well, such as computer & electronic (+9.1%) product industries, but wood product manufacturers, the largest durable goods manufacturing industry in the province, offset growth elsewhere with a 4.5% slump.

BC's growth exceeded the national average of 0.3%, but was well behind New Brunswick's 9.4% increase. The only regions to see declines were Manitoba (-3.0%), Yukon (-2.4%) and Ontario (-1.6%).

Data Source: Statistics Canada

- Investment in non-residential building construction in British Columbia jumped 4.6% (seasonally adjusted) in the second quarter, marking the fifth consecutive quarterly in-

Did you know...

Ninety-eight percent of Canadian farmers feel it is important to manage their farm in ways that protect the environment *Source: Ipsos Reid*

crease. Spending on institutional & government buildings led the growth (+9.6%), followed by the commercial sector (+3.8%), while there was a slowdown in industrial investment (-4.0%). Non-residential building construction activity in Vancouver (+2.5%), Victoria (+9.9%), and Abbotsford (+38.5%) continued to increase.

The levels of expenditure in construction in the second quarter varied among provinces. Alberta (+8.8%) led the way but Nova Scotia (+7.5%) and New Brunswick (+3.3%) also saw significant increases. Six provinces saw decreases over last quarter's numbers, ranging from 0.3% in Manitoba to 6.5% in Newfoundland & Labrador. Quebec (-4.1%) and Ontario (-1.5%) also saw non-residential activities slow. Canadian spending rose 0.9%, reaching a record high for the 13th consecutive quarter. If BC and Alberta were excluded, national investment in non-residential building construction would have declined 0.5%. *Data Source: Statistics Canada*

- **The cost of new housing in Victoria inched down (-0.3%) in May, the first decline in six months.** The monthly decrease was the result of a drop in housing prices (-1.6%), as land value continued to increase (+1.1%). Vancouver's New Housing Price Index was up 0.3%, reflecting a slight rise in the cost of housing (+0.4%) and unchanged land values (+0.0%).

New housing prices advanced in 16 of Canada's 21 metropolitan areas. Calgary continued to lead the way with a 5.4% increase over April, followed closely by Edmonton (+5.3%). Other than Victoria, London, Ontario (-0.8%) and Greater Sudbury/Grand Sudbury & Thunder Bay, Ontario (-0.1%) were the only metropolitan areas to see a decrease in new housing prices in May. *Data Source: Statistics Canada*

Energy Conservation

- **In 2004, more than half (57%) of Canadian businesses surveyed in the primary and manufacturing industries used technologies and processes to reduce their energy consumption.** However, between 2002 and 2004, less than one-quarter of businesses used innovative equipment or systems to reduce green-

house gas emissions. Of these, 14% indicated a large impact on their emissions. Businesses use energy saving technologies and processes for a variety of reasons such as improving productivity, lowering costs and reducing pollutants emitted. *Data Source: Statistics Canada*

Commuting Times

- **In 2005, the average British Columbian spent 60 minutes a day making the round trip from their home to their workplace, approximately the same amount of time as recorded in 1992.** The average travel time for Canadian commuters was 63 minutes in 2005, an increase of almost ten minutes from 1992 (54 minutes). Gains were particularly large for residents of Calgary and Montreal, as the average commute in each of these cities each increased by 14 minutes between 1992 and 2005 (to reach averages of 66 and 76 minutes, respectively). In contrast, Vancouverites spent no more time getting to and from work than in 1992. Not surprisingly, the larger the city, the longer the commute. The metropolitan area of Toronto had the longest commute, an average of 79 minutes per round trip. Approximately 20% of commuters in Canada's six largest metropolitan areas used public transit for part or all of their trips between their residences and their workplaces, a relatively unchanged proportion from 1992. *Data Source: SC, Cat. # 12F0080XIE*

Family Violence

- **According to data from the 2004 General Social Survey, Canadian men (6% of those in current or previous spousal relationship) and women (7%) alike reported having suffered spousal violence at some point between 1999 and 2004, but only 28% of victims turned to police for help.** Men are less likely than women to report violence to authorities. Of incidents of family violence reported to police in 2004, 84% involved female victims and 16% involved male victims. However, the likelihood of involving authorities is also related to the severity of the abuse and women were more likely to experience more serious forms of violence such as sexual assault or assault with a weapon. *Data Source: SC, Cat. # 85-224-XIE*

*Infoline Issue: 06-28
July 14, 2006*

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Originally published in Exports Issue 06-04. Annual Subscription \$60 +GST

Deal or No Deal for Softwood Lumber?

After five long years, the dispute between Canada and the United States over softwood lumber has finally been resolved...or has it? Although the federal government announced in April that an agreement has been reached that would end the long-running trade spat, there has been significant opposition expressed from some sectors of the Canadian lumber industry, as well as some other stakeholders.

The softwood lumber dispute may be coming to an end...or not

The tentative agreement would result in an immediate end to duties imposed on shipments of Canadian softwood lumber to the United States, with the return of all but US \$1 billion of the approximately US \$5 billion in duties already paid out by Canadian lumber companies. Under the agreement, border measures that would be implemented include: an export measure comprised of either an export tax or a combination of an export tax and a volume restraint; a third country trigger that could reduce export taxes; and a surge mechanism that could increase taxes.¹ Other aspects of the deal include an obligation on the part of both countries to end all litigation with respect to softwood lumber and an

The deal would end duties on softwood lumber and return billions of dollars to Canada

¹ The export measure would consist either of an export charge or an export charge plus volume restraint, both of which would vary with the price of lumber.

Price per 1,000 board feet	Option A – Export Charge	Option B – Export Charge plus Volume Restraint
Over US \$355	0%	0%
US \$336-355	5%	2.5% + regional share of 34% of US consumption
US \$316-335	10%	3% + regional share of 32% of US consumption
US \$315 and under	15%	5% + regional share of 30% of US consumption

Note: the regional share is based on the average share of exports to the US from 2001 to 2005.

The third country trigger specifies that if, for two consecutive quarters, Canada's market share falls at the same time that US domestic producers' market share increases and the third country share of US lumber increases by 20% over the same quarters in the previous year, export charges paid in those quarters will be refunded.

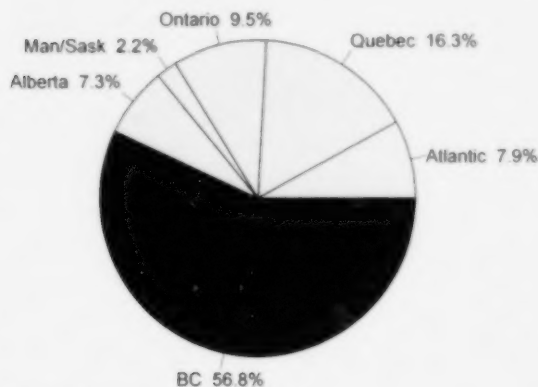
The surge mechanism is triggered when a region's exports are greater than 110% of its allocated share in any period and would result in an export charge of 150% of the normal charge if the difference in volume is greater than 1%. If it is within 1%, the trigger volume for the next period would be reduced by the overage.

Source: International Trade Canada. "Basic Terms of a Canada-United States Agreement on Softwood Lumber." Available at: www.dfait-maeci.gc.ca/eicb/softwood/basic-terms-en.asp

attempt to establish "policy exits" within 18 months of entry into force of the agreement.

Lumber companies operating in British Columbia have the largest stake in any potential agreement since BC is the origin of well over half of the Canadian softwood lumber exported to the US and they have paid out the majority of the duties.

BC was the origin of well over half of the softwood lumber exported to the US in 2005



Source: Statistics Canada

BC has the largest stake in any potential agreement with over half the lumber imported from Canada into the US originating in BC

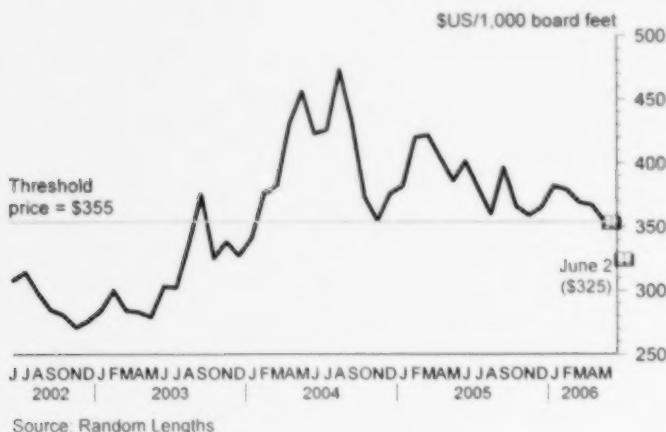
So far the deal in principle has the endorsement of the provincial government, but not all of those within the industry are on side and even those in the forest industry that have expressed support for the agreement have done so tentatively. Some of those in favour of the agreement, including International Trade Minister David Emerson, have suggested that opponents of the tentative deal are looking for a perfect agreement that will never be reached. Reaching agreement on a deal will involve compromise and there will be both pros and cons to any agreement that is reached. What the stakeholders in the dispute would like to ensure is that the pros outweigh the cons.

One of the positive aspects of the agreement is that the duties will be revoked once the deal is signed. Currently, companies are paying duties, on average, of just under 11% on lumber exports to the US. As proponents of the agreement indicated, with the lumber composite price at the level it was on the day the agreement was reached, there would essentially be free trade in lumber between Canada and the United States with no limits to how much lumber could be shipped south of the border and no duties or taxes payable. However, since that day lumber prices have slumped, such that at June 2 the composite price was \$325 per thousand board feet. At this price, companies

One positive aspect of the tentative deal is that duties will be revoked

would have to pay a 10% export tax with no volume restraint under Option A, or a 3% tax combined with a volume restraint under Option B. Option A would be similar to the situation that exists now without an agreement.

The Random Lengths framing lumber composite monthly average price was at or above \$355 from February 2004 to April 2005



Prices for lumber have recently fallen below the threshold at which export taxes will kick in

Opponents of the deal have expressed concern that lumber prices are likely to drop even further over the next several months as demand for housing in the United States wanes. Mortgage rates are rising, which is having a dampening effect on the demand for housing and, subsequently, construction of new housing is starting to fall off. Private housing starts in the United States slumped from a peak of 2.27 million in January (seasonally adjusted at annual rates) to 1.85 million by April, the lowest level in over a year.²

Most economic forecasts predict that US housing starts will be well down from 2005 levels, so it appears unlikely that starts will rebound significantly later in the year.³ This does not bode well for the price of softwood lumber, which means that border measures outlined in the agreement will almost certainly kick in within the next few months. With the pine beetle infestation in British Columbia and the resulting need to deal with a surfeit of beetle-damaged lumber, volume restraints and/or surge mechanisms are also a strong possibility.

² Source: Statistics Canada CANSIM database (data obtained from US Department of Commerce).

³ For example, the Economic Forecast Council offered an average forecast of a drop from 2.05 million housing starts in 2005 to 1.87 million in 2006, with a range of between 1.79 and 1.92 million starts.

See: www.bcbudget.gov.bc.ca/2006/bfp/TheEconomicForecastCouncil.20069.htm

Mortgage rates in the US are on the way up
and housing starts are starting to fall



Sources: Starts - US Dept. of Commerce; Mortgage rates - US Federal Reserve

With mortgage rates in the US rising and housing starts falling, lumber prices could drop further

Despite the risk of some form of border measure, some stakeholders may still find the agreement preferable to the status quo. For one thing, the export taxes would be collected by the Canadian government and kept in Canada, with no possibility of being used to subsidize American competitors. Another positive aspect of the deal is that it provides certainty to Canadian lumber companies both in terms of access to the US market, as well as in knowing that they will not have to engage in a protracted legal battle. The American government has shown very little hesitation in making attempts at bypassing decisions from both NAFTA and WTO panels, using sometimes questionable methodology to ensure that duties remain on Canadian softwood lumber. While Canada's chances of a legal win are good, litigation is always uncertain and the time and effort it takes to achieve a victory could be too costly for some in the industry and could further erode Canada's relationship with the United States.

In addition to providing certainty for lumber producers and starting on the road toward repairing the rifts between the two countries, there is the not so small matter of the return of at least US \$4 billion to Canadian lumber manufacturers. This money could be used to help make Canadian companies more productive or to weather the storm when lumber prices are low. On the other hand, the agreement calls for US \$1 billion to remain in the US, half of which would be distributed directly to the companies that launched the complaint against Canadian lumber in the first place. Considering that a NAFTA panel found that there was no justification for the duties, this provision has raised some objections.

The deal will return at least US \$4 billion to Canadian lumber companies, but US \$1 billion would remain in the US

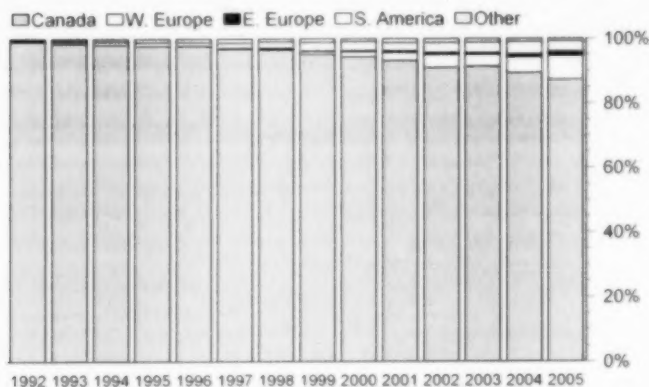
Another contentious part of the agreement is that any forest policy changes that provincial governments wish to make relating to issues such as stumpage could be challenged by the US government. On the other hand, there is the possibility that BC or any other province could make a forest policy change that would exempt that province from export restrictions. The outline of the agreement states that, "Canada, with full participation of the provinces, and the US will make best efforts to define 'policy exits' from the export measure for each province with 18 months of entry into force of this agreement."⁴ However, there is no guarantee that "best efforts" will result in a mutually acceptable agreement on policy exits and the fact that these exits are not already stipulated in the agreement creates some uncertainty for provincial governments looking to achieve free trade in lumber.

The outline of the agreement mentions "policy exits"; however, they are yet to be defined

There are other pros and cons to consider, but no matter which side of the ledger it falls on for the lumber industry, there is one interested party that is almost certain to come out on the short end of the two-by-four if this agreement is ratified, and that is the consumer, because prices for lumber will almost certainly be higher than they would be if there were free trade in lumber. One of the more vocal opponents of the agreement is the executive vice president of the US National Association of Home Builders, Jerry Howard, who believes the deal "would provide a massive subsidy to the US timber industry at the expense of millions of American consumers."⁵ Howard was expressing concerns about a possible deal even before an agreement was

The US National Association of Home Builders is opposed to the agreement

Although Canada is still the primary source of lumber imported into the US, Canada's market share has been slipping



Source: US Department of Commerce

Canada's share of US imports of softwood lumber has been falling

⁴ International Trade Canada. "Basic Terms of a Canada-United States Agreement on Softwood Lumber."

⁵ As quoted in: Crutsinger, Martin. "US, Canada Make Softwood Lumber Deal." *Washington Post*, April 28, 2006 (www.washingtonpost.com).

reached, suggesting that American home builders would look to European and Russian sources for lumber if Canada accepted an agreement that contained quotas or export taxes.

Based on import data from the US Department of Commerce, it appears that Canada's share of US imports of lumber has already been falling over the last decade. In 1992, Canadian lumber comprised 99.1% of American softwood lumber imports, but by 2005, Canada's share had slipped to 87.3%, while South America and Western Europe, in particular, have made significant inroads into the US market.

There are many issues for the lumber industry to consider before deciding whether or not this agreement has more benefits than costs and in the end, each individual company will have to decide what is best for them. However, given the downward trend of lumber prices, this agreement could prove to be a tough sell to those in the forest industry, and even if the forest companies come on side, there is still the possibility that the federal legislation necessary to put the agreement into force could be defeated given the fact that there is currently a minority government in Ottawa.

There are also other emerging issues that could cause the deal to unravel. There has been some negative industry reaction to an American draft of the agreement. John Allan, president of the BC Lumber Trade Council was quoted as saying "What we are seeing in the American draft is not acceptable."⁶ The objections centre on a few clauses in particular. In the preamble of the American draft, there is an explicit statement that Canadian lumber was dumped, subsidized and threatened injury to American lumber producers, despite the fact that NAFTA has ruled otherwise. There has also been concern expressed from remanufacturers about the language used to impose conditions on the industry that could result in most of them being subject to having their goods taxed on the price of their finished products, rather than the price of the lumber inputs. Of concern for BC, in particular, is an anti-circumvention clause that some fear could halt BC's efforts to bring in a market-based timber pricing system.

In order to protect their interests, several Canadian forest companies are filing lawsuits with the US Court of International Trade. These companies would be required to drop these lawsuits under the terms of the agreement, which could indicate that they are filing the suits in order to give them leverage if they don't like the terms of the final draft. With all these uncertainties brewing, it is impossible to say at this point whether or not this agreement will signify an end to the dispute.

⁶ As quoted in: Hamilton, Gordon. "Softwood draft 'not acceptable,'" *Vancouver Sun*, June 1, 2006, p. C1.

 fax transmission information service from **BC STATS**

 Email transmission information service from **BC STATS**

 also on the Internet at www.bcstats.gov.bc.ca

BC at a glance . . .

POPULATION (thousands)			% change on one year ago
		Apr 1/06	
BC		4,292.2	1.3
Canada		32,501.1	1.0
GDP and INCOME			% change on one year ago
(BC - at market prices)		2005	
Gross Domestic Product (GDP) (\$ millions)		168,011	6.8
GDP (\$ 1997 millions)		144,028	3.5
GDP (\$ 1997 per Capita)		33,853	2.2
Personal Disposable Income (\$ 1997 per Capita)		20,693	2.5
TRADE (\$ millions, seasonally adjusted)			% change on prev. month
Manufacturing Shipments - May		3,769	0.9
Merchandise Exports - May		2,683	-3.0
Retail Sales - Apr		4,414	1.3
CONSUMER PRICE INDEX		% change on one year ago	12-month avg % change
(all items - May 2006)			
BC		2.3	1.9
Vancouver		2.3	1.7
Victoria		2.2	2.1
Canada		2.8	2.4
LABOUR FORCE (thousands)			% change on prev. month
(seasonally adjusted)		Jun '06	
Labour Force - BC		2,289	-0.6
Employed - BC		2,192	-0.1
Unemployed - BC		97	-10.2
		May '06	
Unemployment Rate - BC (percent)		4.3	4.7
Unemployment Rate - Canada (percent)		6.1	6.1
INTEREST RATES (percent)		Jul 12/06	Jul 13/05
Prime Business Rate		6.00	4.25
Conventional Mortgages - 1 year		6.60	4.75
- 5 year		6.95	5.70
US/CANADA EXCHANGE RATE		Jul 12/06	Jul 13/05
(avg. noon spot rate) Cdn \$		1.1355	1.2072
US \$ (reciprocal of the closing rate)		0.8816	0.8282
AVERAGE WEEKLY WAGE RATE			% change on one year ago
(industrial aggregate - dollars)		Jun '06	
BC		722.67	3.1
Canada		726.66	3.6

SOURCES:

Population, Gross Domestic Product, Trade } Statistics
 Prices, Labour Force, Wage Rate } Canada
 Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics
 For latest Weekly Financial Statistics see www.bankofcanada.ca

BC and Regional population projections

Projected population to 2031 for British Columbia and a variety of small regions within B.C. (P.E.O.P.L.E. 31).

www.bcstats.gov.bc.ca/data/pop/pop/popproj.asp#admin

Regional employment projections

BC Stats, with the financial assistance of the Ministry of Advanced Education, developed the Regional Employment Projection Model (REPM), designed to project industrial and occupational employment in regions of the Province of British Columbia.

www.bcstats.gov.bc.ca/data/lss/repm.asp

Socio-Economic Profiles & Indices 2005

Updated annually, this body of work provides a coherent and relatively comprehensive measurement of social stressors at sub-provincial areas. Charts, tables and, within the indices, consolidated rankings, make the information broadly accessible.

www.bcstats.gov.bc.ca/data/sep/index.asp

Released this week by BC STATS

- Exports, May 2006

Next week

- Consumer Price index, June 2006

